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# DEMAND AND PRICE Situation

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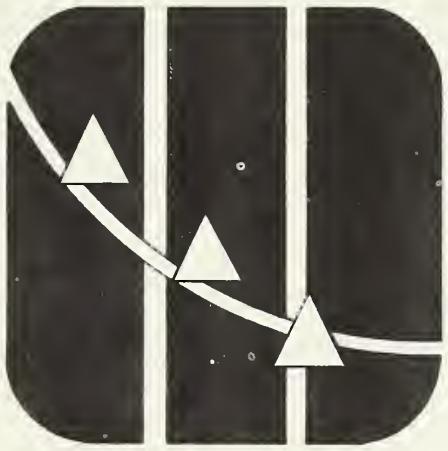

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

Table 1.—Selected measures of economic activity

| Item | Year 1970 | Year 1971[1] | 1970 | | | 1971 | | |
|---|---|---|---|---|---|---|---|---|
| | | | II | III | IV | II | III | IV[1] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Gross national product | 974.1 | 1,046.8 | 968.5 | 983.5 | 988.4 | 1,040.0 | 1,053.4 | 1,073.0 |
| Disposable personal income | 687.8 | 741.2 | 685.7 | 696.2 | 701.5 | 739.6 | 748.5 | 754.8 |
| Personal consumption expenditures | 615.8 | 662.2 | 613.8 | 620.9 | 624.7 | 657.4 | 668.8 | 677.7 |
| Food spending (excluding alcoholic beverages) | 114.0 | 118.4 | 113.7 | 114.3 | 116.4 | 118.1 | 119.0 | 120.0 |
| | | | *1958=100* | | | | | |
| Implicit price deflator for GNP | 135.3 | 141.6 | 134.3 | 136.0 | 138.1 | 141.3 | 142.2 | 142.7 |
| | | | *Percent* | | | | | |
| Unemployment rate[2] | 4.9 | 5.9 | 4.8 | 5.2 | 5.8 | 6.0 | 6.0 | 5.9 |
| | | | *Billion dollars* | | | | | |
| Cash receipts from farm marketings | 49.2 | 51.6 | 49.7 | 48.4 | 48.3 | 50.6 | 52.3 | 53.8 |
| Nonmoney income and Government payments | 7.4 | 7.0 | 7.4 | 7.3 | 7.3 | 7.0 | 7.0 | 7.1 |
| Realized gross farm income | 56.6 | 58.6 | 57.1 | 55.7 | 55.6 | 57.6 | 59.3 | 60.9 |
| Farm production expenses | 40.9 | 42.9 | 40.7 | 41.2 | 41.4 | 42.8 | 43.0 | 43.6 |
| Farmers' realized net farm income | 15.7 | 15.7 | 16.4 | 14.5 | 14.2 | 14.8 | 16.3 | 17.3 |
| Agricultural exports[3] | 7.3 | 7.7 | 1.7 | 1.7 | 2.2 | 1.9 | 1.9 | 1.9 |
| Agricultural imports[3] | 5.7 | 5.8 | 1.5 | 1.4 | 1.4 | 1.6 | 1.7 | 1.1 |
| | | | *1967=100* | | | | | |
| Volume of farm marketings | 104 | 108 | 84 | 104 | 134 | 83 | 111 | 147 |
| Livestock and products | 104 | 106 | 104 | 106 | 109 | 107 | 108 | 107 |
| Crops | 103 | 112 | 56 | 102 | 166 | 52 | 114 | 200 |
| Price received by farmers[4] | 110 | 112 | 110 | 110 | 106 | 112 | 112 | 114 |
| Livestock | 118 | 116 | 118 | 117 | 110 | 114 | 116 | 119 |
| Crops | 100 | 108 | 99 | 102 | 101 | 111 | 108 | 108 |
| Prices paid by farmers[4 5] | 114 | 120 | 114 | 114 | 115 | 120 | 120 | 121 |
| Wholesale price index, all commodities[4] | 110.4 | 113.9 | 110.1 | 110.8 | 111.0 | 113.8 | 114.7 | 114.8 |
| Consumer price index, all items[4] | 116.3 | 121.3 | 115.7 | 117.0 | 118.6 | 120.8 | 122.0 | 122.7 |
| All food | 114.9 | 118.4 | 114.9 | 115.8 | 115.2 | 118.4 | 119.6 | 119.4 |
| Food at Home | 113.7 | 116.4 | 113.7 | 114.4 | 113.4 | 116.6 | 117.7 | 117.2 |

[1] Preliminary. [2] Unemployment as a percent of the civilian labor force. [3] Actual values, not seasonally adjusted annual rates. [4] Not seasonally adjusted. [5] Including interest taxes and wage rates. Quarterly data seasonally adjusted except as noted. Department of Agriculture, Commerce, and Labor.

# DEMAND AND PRICE SITUATION

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Approved by
the Outlook and Situation Board
and Summary released
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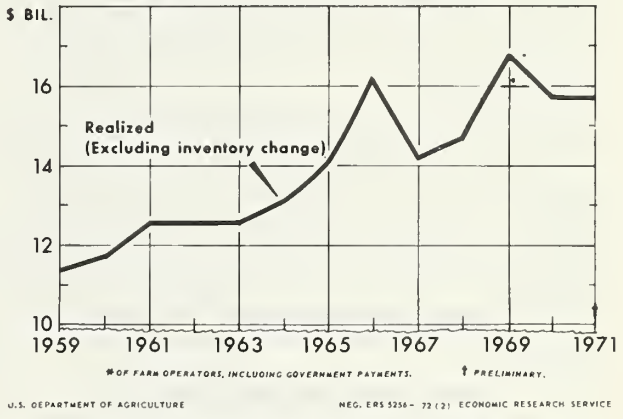
## SUMMARY


Farmers can look forward to materially better incomes in 1972. Prices are benefiting from strong consumer demand for livestock products and smaller supplies of some crops. Livestock prices look strong for most of the year, with considerably less pork production but more beef, poultry, and milk. Record harvests have dampened grain prices but smaller total supplies of cotton, soybeans, vegetables, and tobacco are holding crop prices above a year earlier. Crop prices are likely to drift upward into the spring before dipping slightly later in the year.

Cash receipts from farm marketings are expected to be well above 1971, with higher livestock receipts accounting for most of the gain. Also, as an incentive to increase acreage set-aside and bring grain production more in line with market demand, government payments will be stepped up substantially. With these developments, gross farm income may run $3-3-1/2 billion above 1971.

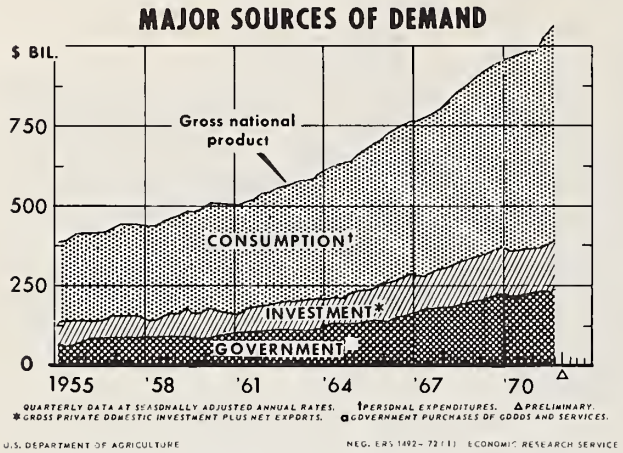

**REALIZED NET FARM INCOME***




Farm production expenses may not rise as much this year, as prices for both farm and nonfarm inputs are tempered. Gains in gross income will more than offset advances in expenses, lifting farmers' realized net income about $1-1/2-$2 billion above last year's $15.7 billion.

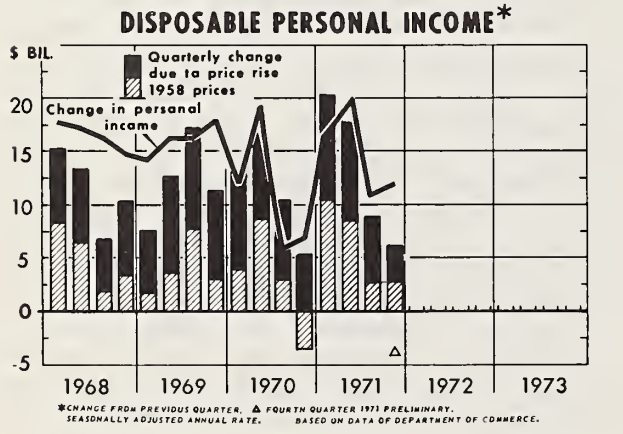
The economy continues to gain momentum. Prospects for the year suggest a healthy pickup in real growth with a slower rise in prices. The outlook indicates an increase in consumer spending, a higher level of private investment, and larger government expenditures. Accelerating sales should stimulate business inventory accumulation. In addition, slower increases in costs and the investment tax credit are likely

to encourage businessmen to expand their facilities and invest in new plant and equipment.




Housing will continue to spur economic expansion in 1972 with starts increasing slightly from 1971's record level. Environment and energy markets have expanded. Many utility companies planning large investments in new plant and facilities have begun large financing. Although the Federal Government is curtailing some programs and reducing Federal employment, Federal spending and outlays by State and local governments will likely outpace their 1971 increases. Defense orders may increase, helping depressed industries in regions of high unemployment.

Rising wage rates, increased employment, expanding social security and welfare payments, and a further rise in Federal tax exemptions will provide another substantial boost in consumers' after-tax incomes in 1972. Moreover, as economic activity accelerates, increased job opportunities will ease the unemployment rate from its current relatively high level, further adding to income gains. These developments point to a strong demand for food and other consumer goods in 1972.

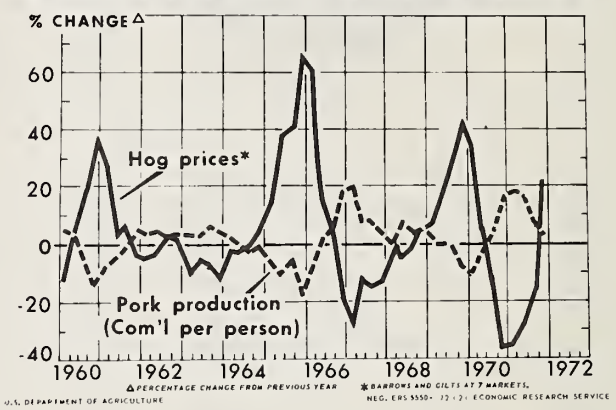



Slightly smaller food supplies and higher farm food commodity prices point to a rise in retail food prices in 1972. Cutbacks in pork output and smaller egg production will limit total livestock supplies. These factors, together with increases in demand, will keep average farm prices above a year earlier. In addition, shorter supplies of winter fresh vegetables will keep average crop food prices firm. But Phase II economic restraints are likely to moderate increases in marketing margins. All-food prices may increase around 4 1/2% with food at home climbing close to 4%.

The U.S. agricultural export outlook into summer is clouded by uncertainties surrounding the dock strikes and the international monetary situation. Large foreign grain supplies and short supplies and higher prices of U.S. cotton and soybeans are having a dampening influence on the volume of agricultural exports in fiscal 1971/72. The value also will ease some from the record value of $7.8 billion in 1970/71.

. . . . Outlook for major farm commodities . . . .

. . . . *Hog* slaughter will sharply trail year-ago levels through the first half. Prices, though declining seasonally in late winter, are likely to average well above a year ago throughout 1972.




. . . . *Beef* supplies will be up moderately in the first half. An 8% increase in cattle on feed January 1 suggests larger marketings at least through spring. Prices will probably weaken in late winter, but continue above January-June 1971 prices.

. . . . *Broiler* output is expected to be larger in 1972, partly due to lower feed costs. Prices, aided by small pork supplies, will likely average moderately above 1971 levels.

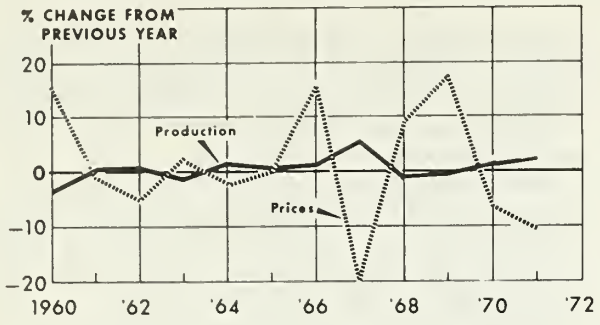
. . . . *Turkey* production may be slightly larger in 1972. Strong demand and less pork will probably hold prices above a year earlier.

. . . . *Egg* output is running near year-ago levels in the first half, and may dip slightly below after midyear. Though remaining at very moderate levels, prices are expected to average above 1971.

. . . . *Milk* output is in for another slight gain in 1972. Prices will run above 1971 through the first quarter.

. . . . *Wool* may benefit from an expansion in economic activity but competition from man-made fibers will continue to dampen demand.

**EGGS: CHANGES IN PRODUCTION AND FARM PRICES**




. . . . *Feed grain* disappearance, despite an increase in domestic usage, will be under 1971's crop, boosting carryover into 1972/73 substantially over the previous year. Prices have increased more than seasonally from the low point last fall, but may show only modest gain through summer depending on farmers' response to the 1972 program and the progress of the 1972 crop.

. . . . *Wheat* usage will be down moderately this season as exports decline. Carryover next summer could be up to around 1 billion bushels. Larger supplies have lowered prices since July.

. . . . *Soybean* supplies are moderately lower this season. Crushings and exports are also lower, but they exceed the 1971 crop, and carryover next September 1 will decline some. Prices are expected to remain strong.

. . . . *Cotton* disappearance may moderately exceed the 1971 crop, pointing to a nearly 3/4 million bale decline in carryover next August. Prices so far this year are sharply higher.

. . . . *Tobacco* use, though slipping from last season, will exceed the 1971 crop resulting in a reduced carryover. Strong demand and a smaller crop have raised prices to record levels.

. . . . The *citrus* crop is estimated about the same as last season. However, strong demand is currently pushing prices above the average of a year ago.

. . . . Less winter *fresh vegetables* are available this year and prices are seasonally high.

. . . . Supplies of *processed vegetables* are close to last season as new packs have offset smaller carryovers.

. . . . *Lumber* and plywood production may rise again in 1972. However, continuing strong demand is expected to keep upward pressure on prices.

**Change from a year earlier in livestock-feed price ratios**

| Year | Beef steer-corn | Hog-corn | Broiler-feed | Milk-feed |
|---|---|---|---|---|
| | *Percent* | *Percent* | *Percent* | *Percent* |
| 1970/69 | | | | |
| I . . . . . | 6.1 | 31.3 | -6.1 | 0.6 |
| II . . . . . | -4.7 | 4.8 | -14.7 | 1.8 |
| III . . . . . | -10.1 | -22.2 | -22.2 | -.6 |
| IV . . . . . | -15.7 | -47.6 | -21.9 | -3.8 |
| 1971/70 | | | | |
| I . . . . . | -13.5 | -48.9 | -12.9 | -5.6 |
| II . . . . . | -8.3 | -39.9 | 0 | -4.8 |
| III . . . . . | 15.8 | -9.5 | 7.1 | .6 |
| IV . . . . . | 41.7 | 57.0 | 8.0 | 7.8 |

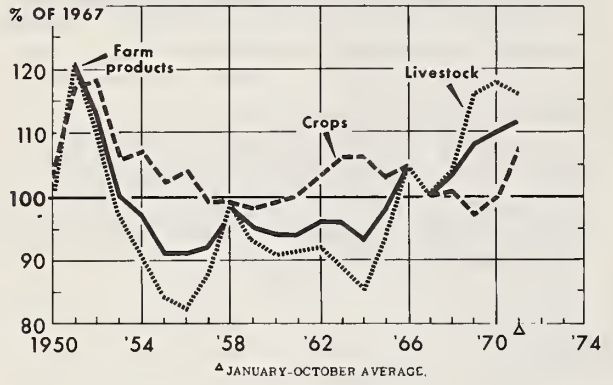
**U.S. agricultural trade balance July-December 1970 and 1971**

| Item | 1970 | 1971[1] | Percentage change |
|---|---|---|---|
| | *Million dollars* | *Million dollars* | *Percent* |
| Exports . . . . . | 3,874 | 3,813 | -2 |
| Imports . . . . . | 2,840 | 2,837 | 0 |
| Trade balance . . . . . | 1,034 | 976 | -6 |

[1] Preliminary.

Farm incomes will improve materially this year. Large marketings are combining with strong prices to increase cash receipts. Livestock output has been relatively large. However, production in January dropped below a year ago and prices strengthened. And the index of crop prices has begun to rise due to smaller supplies of cotton, vegetables, soybeans, and tobacco. Also, grain prices have begun to improve although still under pressure from record harvests.

**PRICES RECEIVED BY FARMERS**




With the expected rise in consumer after-tax income and continued strong demand for food and other farm products this year, cash receipts and farmers' net income will run well above relatively depressed levels of early 1971. Livestock receipts will increase this year due mainly to higher average prices in the first half of 1972. Crop receipts from marketings in 1972 will likely total slightly below a year earlier but this will be more than offset by increased program payments. Gross farm income will be at a record level this year totaling some $3-$3½ billion above 1971. The rise in production expenses should slow in the face of Phase II restraints, raising net farm income $1½-2 billion above 1971's $15.7 billion total.

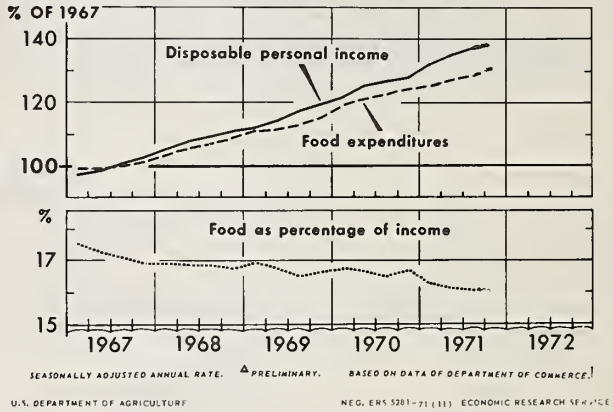
Prices in early 1972 are expected to be higher than a year earlier for meat animals, poultry, and dairy products. Smaller carryover stocks, increased feeding, and price supports are limiting the price impact of the bumper 1971 grain harvest. Cotton and tobacco prices are above a year earlier. And although grain prices will remain relatively low for most of the year, high soybean prices are benefiting from a tighter supply.

### Domestic Demand Healthy

The economic expansion in 1972 should result in a stronger consumer demand this year for food and other consumer products. Purchases of food, alcohol, clothing, shoes, and tobacco should be well above 1971's levels. Purchases of food and alcohol increased 3.6% to $136.6 billion in 1971. Expenditures for clothing, shoes, and tobacco totaled $68.5 billion in 1971 for a 7.4% gain over the previous year.

Rising wage rates and prospects for some increase in output and employment plus increases in social security and other transfer payments probably will boost consumers' after-tax incomes about 8% through 1972. An expansion in the Food Stamp Program to $2.2 billion will also bolster consumers' purchasing power. The Phase II program to restrain price advances in the coming year may also help to induce increased volume of consumer buying.

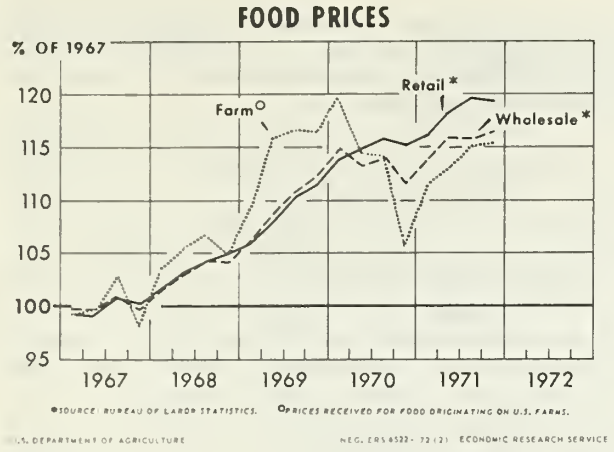
**FOOD EXPENDITURES AND INCOME**




Consumer outlays for food in the fourth quarter were at a $120 billion annual rate. Sales of all food products in 1971 were about 4% over the previous year's level. But this moderate rise was much less than the advances made during 1969 and 1970 because of a relatively slow rise in food prices. This year's expenditures for food probably will be around 5% larger than in 1971, reflecting both demand and some acceleration in certain food prices.

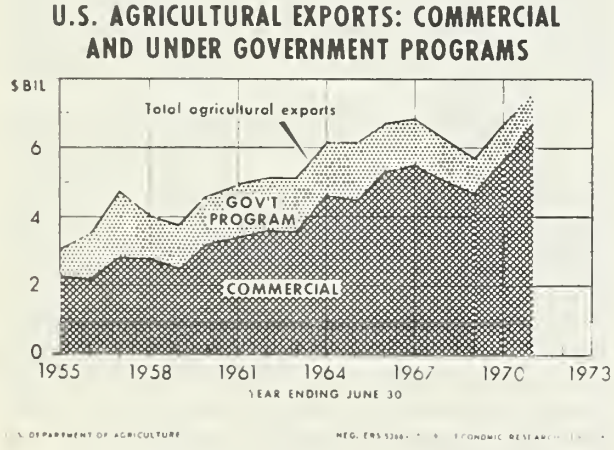
Per capita food consumption is expected to change very little in 1972 compared with the surge of the past 5 years. Curtailment of pork supplies will probably about offset any prospective increase in per capita consumption of beef and poultry.

Prices of all food at retail may increase around 4½% with food at home climbing close to 4%. Livestock products should contribute significantly to the retail price increase as pork production is cut materially and egg production is pulled back from 1971 levels. Retail prices of crop foods will average higher, reflecting higher prices for fruits and vegetables.




## Exports and Imports of Agricultural Products

For the balance of the 1971/72 fiscal year, the export outlook for U.S. agricultural commodities is clouded by uncertainties surrounding the longshoremens' strikes and the international monetary situation. Nevertheless, some easing from the record $7.8 billion export total of 1970/71 is in prospect due to a large supply of grains in Western Europe and short supplies of U.S. cotton and soybeans.




U.S. agricultural exports in July-December 1971 declined to $3,812 million, a 2% decline from the same period of 1970. A brief respite in dock strike activity contributed to a record $842 million monthly total in December. However, bumper world grain crops and the longshoremens' strikes combined to hamper foreign sales of U.S. farm products during July-December. While exports of cotton, soybean, animals and animal products advanced, sluggish grain exports and lower tobacco shipments were more than offsetting. Higher prices and a more than one-third advance in quantity lifted cotton export value by more than 60%. The value of oilseeds and products moved a tenth above a year earlier due to increased prices and a gain in cottonseed oil exports. The export value of animals and animal products advanced 12% with large quantities of butter moving at special prices, mostly to the United Kingdom because of reduced production in Oceania and lower European supplies. All grain sales totaled $1.2 billion, off about one-fifth from a year earlier. A decline in exports to Japan and the dock strike at East Coast ports also contributed to the sharp decline in tobacco exports to $242 million.

**U.S. agricultural exports, value of major commodities**

| Commodity | July-December | | Percentage change |
|---|---|---|---|
| | 1969/70 | 1970/71[1] | |
| | *Million dollars* | *Million dollars* | *Percent* |
| Animals and animal products | 432 | 484 | 12 |
| Cotton | 149 | 241 | 62 |
| Feed grains, excluding products | 630 | 506 | -20 |
| Fruits | 180 | 189 | 5 |
| Soybeans | 649 | 701 | 8 |
| Tobacco, unmanufactured | 316 | 242 | -23 |
| Vegetables | 97 | 101 | 4 |
| Wheat and flour | 611 | 498 | -18 |
| Rice | 159 | 126 | -21 |
| Other | 651 | 725 | 11 |
| Total exports | 3,874 | 3,813 | -2 |

[1] Preliminary.

U.S. agricultural imports during July-December 1971 matched the $2.8 billion recorded in the same period of 1970. Labor strikes at West Coast and Atlantic and East Coast ports played a significant role in July-December imports. Agricultural imports reached record levels in August, September, and December, while October and November activity was well below average.

The value of competitive (supplementary) agricultural imports totaled $1.8 billion in July-December, about the same level as a year ago. Advances in the value of sugar, wines, and tobacco imports were offset by declines in animals and animal products, oil and oil-bearing products and vegetables. Imports of noncompetitive (complementary) farm products were valued at $1.0 billion, only fractionally under the level of a year ago. Increases in the values of tea, carpet wool, and rubber imports were more than offset by declines in bananas and cocoa and chocolate as coffee imports were about unchanged.

The U.S. agricultural trade balance of $976 million in July-December 1971 was 6% below the same period of a year ago.

## Grain Supply Heavy

The record grain harvest continues to bring relatively low prices to corn and wheat growers but favorable feed costs to livestock producers. Big supplies are encouraging

U.S. agricultural imports, value of major commodities

| Commodity | July-December | | Percentage change |
|---|---|---|---|
| | 1970 | 1971[1] | |
| | *Million dollars* | *Million dollars* | *Percent* |
| Supplementary | | | |
| Animals and animal products | 793 | 784 | -1 |
| Fruits | 63 | 64 | 2 |
| Oilseeds and oil products | 96 | 86 | -10 |
| Sugar and molasses | 408 | 426 | 4 |
| Tobacco, unmanufactured | 70 | 83 | 19 |
| Vegetables | 93 | 84 | -10 |
| Wines and malt beverages | 99 | 109 | 10 |
| Other | 177 | 167 | -6 |
| Total | 1,799 | 1,803 | 0 |
| Complementary | | | |
| Bananas | 97 | 86 | -11 |
| Cocoa and chocolate | 129 | 111 | -14 |
| Coffee | 591 | 591 | 0 |
| Rubber | 102 | 107 | 5 |
| Other | 122 | 139 | 14 |
| Total | 1,041 | 1,034 | -1 |
| Total imports | 2,840 | 2,837 | 0 |

[1] Preliminary.

a moderate increase in domestic feeding. Still there will be a substantial increase in carryover stocks at year's end for most food and feed grains.

The 1971 corn crop reached 5,540 million bushels, about 35% larger than the short 1970 crop. Sorghum grain and barley crops were also up substantially while oat production declined. Wheat production for 1971 was a record 1,640 million bushels, 20% above a year earlier, pushing wheat supplies for 1971/72 to 2.4 billion bushels, the largest since 1962/63.

The Secretary of Agriculture announced February 2 a new feed grain set-aside option. Under the new option, corn producers, after setting aside the required 25% to participate, will be able to earn 80 cents per bushel for setting aside an additional 10% of their base. For sorghum, the payment will be 76 cents per bushel. To earn these higher payment rates, the producer will agree that for each additional acre set aside, his 1972 plantings of corn and grain sorghum will be reduced by 2 acres below his 1971 acreage. Thus, 1 acre would be set-aside and held out of production; the second acre would be held out of corn-grain sorghum production, with the freed acreage available for planting to other crops not subject to quota restrictions. In addition, producers may offer an additional 5% of their corn-grain sorghum base at these higher rates which may be accepted at the option of the Secretary. All previously announced provisions of the program are still available. There is no extra option for barley producers.

Winter wheat producers, responding to the Agricultural Act of 1970 for the first time, seeded 42.2 million acres during the fall of 1971, 9% more than a year earlier. This was the first substantial increase in winter wheat acreage since 1967. If average yields on the indicated acreage are good, and conditions have been generally good to excellent, the winter crop would be substantially larger this year.

To avoid excessive production in 1972, an additional set-aside was announced on January 10 for the 1972 wheat program. Now, growers have the option to voluntarily set-aside 75% of their farm domestic allotment. They will be paid 94 cents per bushel times the farm's yield times the acreage voluntarily set-aside.

As of January 1, farmers planned to seed 14.8 million acres of spring wheat, down 7% from last year. Added to increased winter plantings, this would give a total wheat acreage of 57.1 million acres, up 4% from 1971.

U.S. soybean supplies for the 1971/72 marketing season, influenced heavily by a slight gain in soybean production in 1971 and lower carryover, fell 6% below last season's level. Total utilization is also expected to be down around 4% with reductions in both crushing and exports. Carryover stocks will continue at minimum levels at the beginning of next season and prices will continue strong. Prices are expected to continue strong into spring but will be subject to 1972 acreage prospects and world markets in coming months.

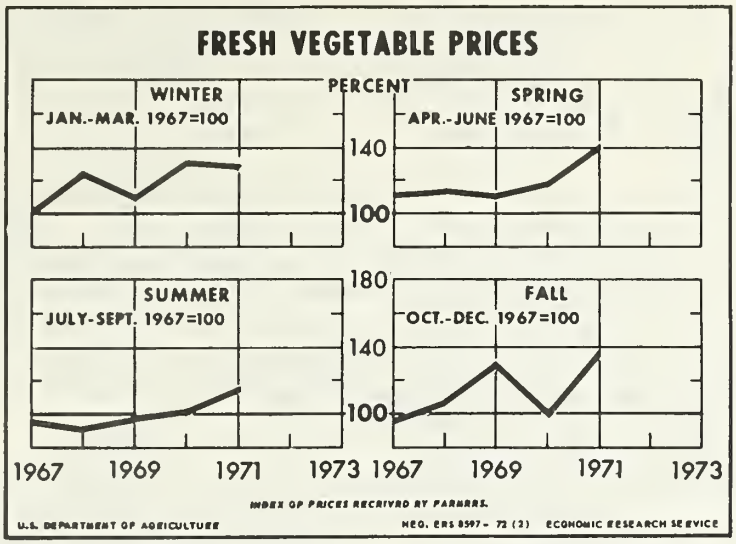
The cotton outlook is highlighted by a continuing tight supply situation. Much smaller beginning stocks and below-average production have led to the smallest supply in over 2 decades. As a result, both farm prices and spot market prices have increased sharply. These higher prices should boost cash receipts despite smaller output. A strong demand has held consumption at last year's rates, meaning smaller prospective carryover stocks next summer.

U.S. tobacco supplies are ample, but about 3% lower this marketing year than last. Use may total 4-5% below last season but still exceed the 1.74-billion-pound crop of 1971. Thus, carryover at the end of 1971/72 marketing year is expected to be slightly below a year earlier. Prices for both flue-cured and burley have set record highs.

Due to smaller lettuce and celery crops, winter vegetable production is estimated 2% smaller than a year ago. The same quantity of new cabbage is expected and slightly more carrots. A sharply larger Florida tomato production has been coming to market after 2 low production years.

Commerical vegetable prices are expected to remain near the record highs established for 1971, moderating gradually as supplies increase seasonally. Prices for sweetpotatoes will likely rise seasonally, holding moderately above a year earlier. Potato prices remain relatively low as market supplies continue large. Dry bean supplies are light and prices are expected to hold at high levels at least until the size of the 1972 crop is determined sometime this summer.

Citrus production is expected to be about the same as last season and 6% more than in 1969/70. Florida orange and grapefruit prices, because of demand, are up sharply. California orange prices are about the same as a year ago.

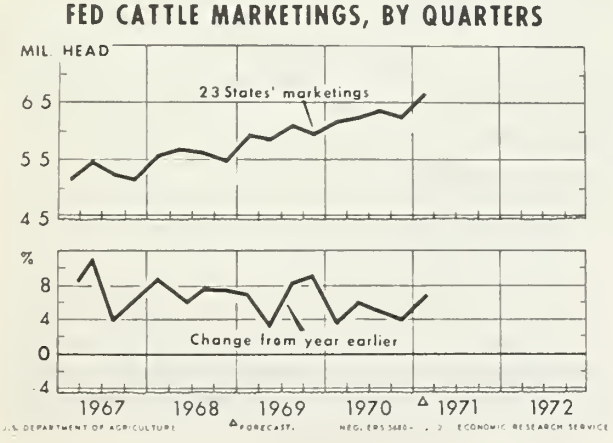



Smaller production of apples in the Western States has kept prices above last year's level.

### Livestock Prices Strong

Production of livestock and products in 1971 averaged 2-1/2% above 1970 levels. The gains in the first half of the year, spurred by substantially larger pork output, were tempered after midyear as pork production trended sharply downward and egg output moved nearer year-earlier levels. Prices to livestock producers, depressed early in the year by large supplies, improved materially by year-end as production gains eased and consumer demand continued strong. For the year, prices received for livestock and products averaged 2% under the level of 1970.

Expectations point to little change from a year earlier in livestock supplies through the first half of the year. Continued smaller pork production will likely offset gains for beef, poultry, and milk. Prospects for little overall change in output into late 1972 and with a strong consumer demand, livestock prices are likely to continue strong, above 1971 levels.



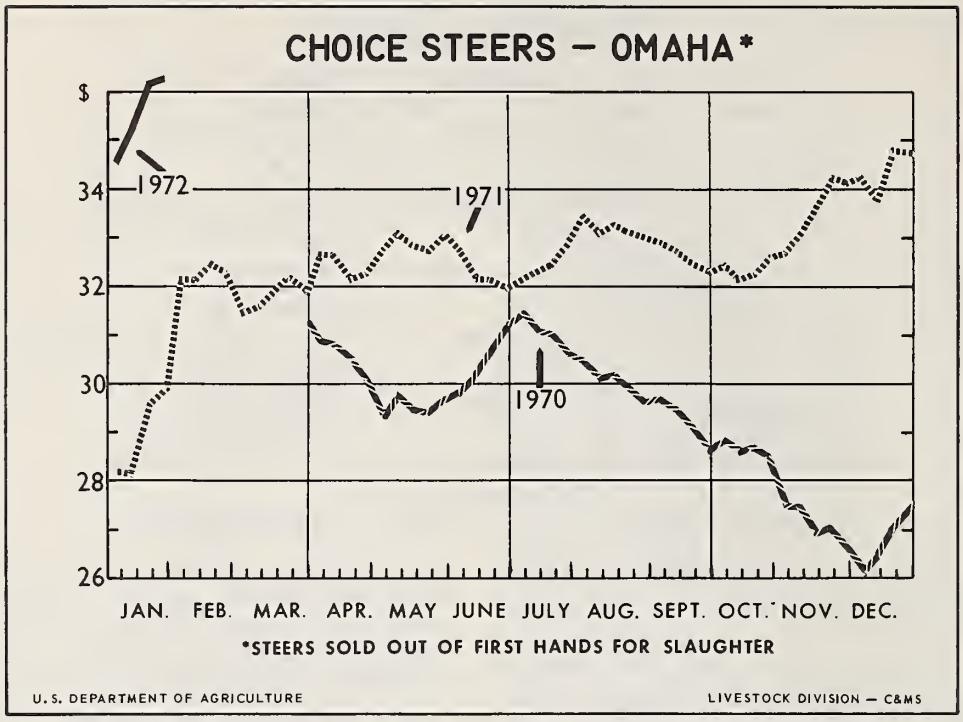

Beef supplies in the first half of 1972 are expected to run a little above a year earlier. Producer intentions point to an advance of 7% in fed cattle marketings during the first quarter. In addition, a moderate increase in marketings is indicated for the spring. Choice steer prices at Omaha in early February averaged close to $36.50 per 100 pounds, relatively above the low levels of a year ago. Prices will probably weaken in late winter and spring when increased supplies will begin exerting some downward pressure although sharply lower pork output will have some moderating influence.

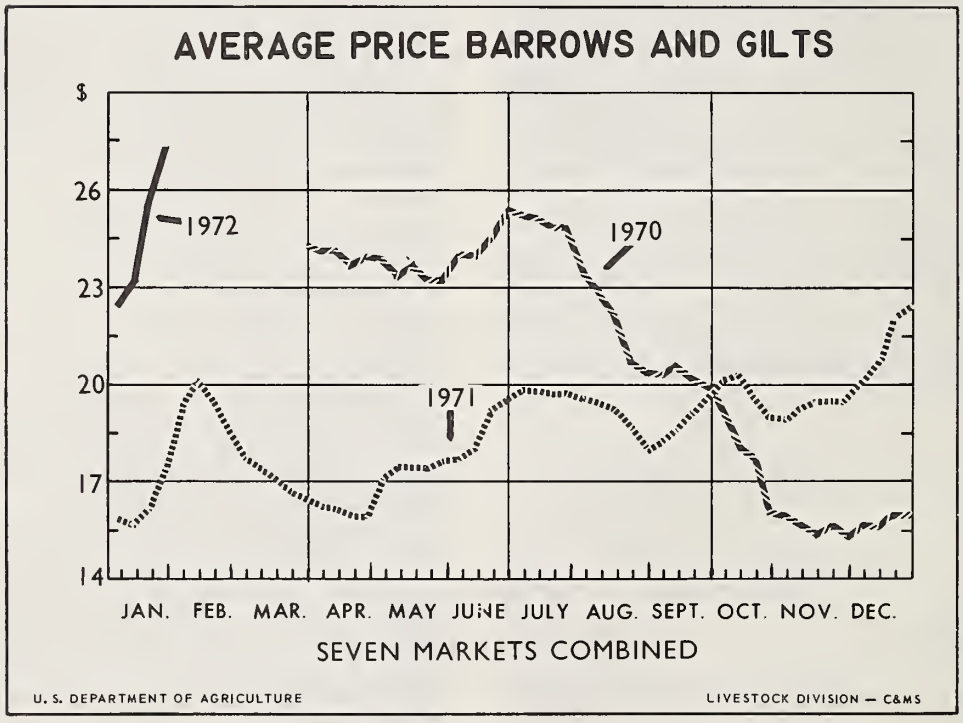
Hog slaughter will sharply trail year-ago levels in the first half of 1972. The number of marketable hogs for this period is down 6% according to December 1, 1971 indications. With intentions for a 9% drop in the December 1971-May 1972 pig crop, pork production will continue lower in the second half of 1972. The 7 market price of barrows and gilts in early February averaged $26.40, $7 per 100 pounds above a year earlier. Prices will continue strong through the summer, reflecting the production cutback. However, the margin above a year earlier is likely to be less than in February.

A 6% reduction in the 1972 inventory of sheep and lamb on farms points to a decrease in lamb slaughter in the first half of 1972. Prices rising seasonally into the spring will likely be above 1971 levels.

Broiler production, boosted by cheaper feed costs will be above 1971 levels throughout the year with the larger gains expected in the second half. Producers placed 2% more chicks for marketing in the first quarter. Despite increased production prospects, broiler prices this year will likely average moderately above 1971 levels due largely to reduced pork production.

Egg production, though running above year-earlier levels, trended downward in late 1971 as layer numbers were trimmed. Despite the smaller laying flock, continued advances in the rate of lay will likely hold production near year-earlier levels during the first half of 1972. Second half output may edge below a year earlier. Egg prices, very low during 1971, may move above a

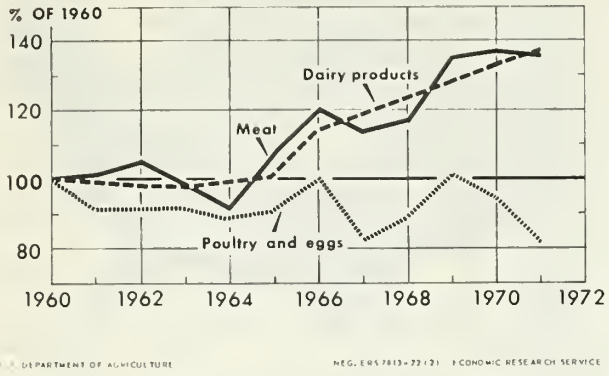



year ago before declining seasonally in the spring. They are expected to average well above 1971 after midyear.

Turkey output, after a moderate expansion in 1971, may again total slightly higher this year. Growers in 20 key States intend to raise only 1% more turkeys in 1972. With January 1 cold storage holdings near a year earlier, turkey meat supplies may be only slightly larger this year. Turkey prices will probably remain above a year ago in 1972 in response to strong consumer demand and the impacts of reduced pork supplies.

**PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS**

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Milk production this year is likely to gain slightly, around another 1%, as feed costs and milk prices remain favorable. Increases in milk output per cow in 1971 more than offset a 1% decline in cow numbers, pushing production up 1% to 118.6 billion pounds. CCC purchases totaled around 7.3 billion pounds milk equivalent. Another small advance in output this year indicates that USDA may buy more products for price support than in 1971. Milk prices to producers averaged around 3% higher in 1971 to a level of $5.86 per hundredweight. Increases are expected to continue through the marketing year which ends on March 31. Dairy support support levels for the 1972/73 marketing year will be announced prior to April 1. These price support levels may be a major influence on prices for the balance of 1972 and in 1973.

### Farm Income

Farm incomes improved considerably in the second half of 1971. Prices of livestock and products strengthened. Crop receipts increased with the large crop despite lower prices for grains. Higher prices for soybeans, cotton, and tobacco increased cash receipts. In addition, the rise in production expenses slowed a bit as feed prices dropped and the rise in prices of nonfarm production items was slowed by the wage-price freeze. As a result, realized not farm income rose in the second half of 1971 to an annual rate of about $16 3/4 billion, $2 billion above a year earlier. Still, because of a poor first half, net farm income for all of 1971 totaled around $15 3/4 billion, the same as in 1970.

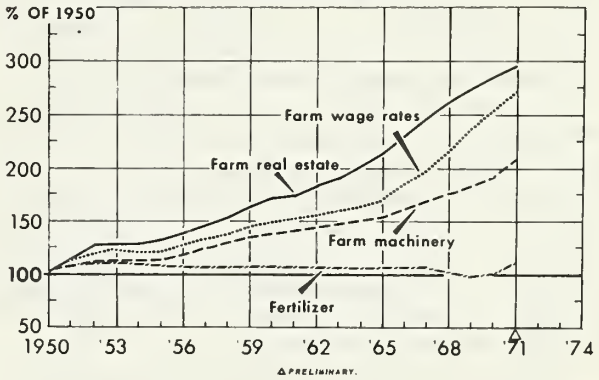
Cash receipts and gross income in the opening months of 1972 continue well above a year earlier and will remain above 1971 throughout 1972. Receipts from livestock products will be up substantially this year due to higher prices. Crop receipts from marketings may be off some, but increased program payments will be more than offsetting.

The degree of success of the set-aside programs in limiting crop production, Phase II, the export picture, and the rate of growth in the general economy will all play a significant role in determining farm income in 1972. Indications are for a record realized gross income $3-$3 1/2 billion above the 1971 level with a net $1 1/2-$2 billion above 1971's $15.7 billion. This would mean a record average income per farm in 1972 of more than $600 higher than the $5,468 of a year earlier.

### Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wage rates rose more than 5 1/2% in 1971. Largest advances were for building materials and taxes with moderate increases for prices of seed, motor vehicles, and farm machinery. A record feed grain harvest dropped feed costs moderately below a year earlier, after they had run more than 8% higher in the first 8 months of the year. However, lower feed prices and higher livestock prices stimulated feeding activity, bidding up the cost of feeder livestock which has been materially higher since August.

**PRICES OF SELECTED FARM INPUTS**

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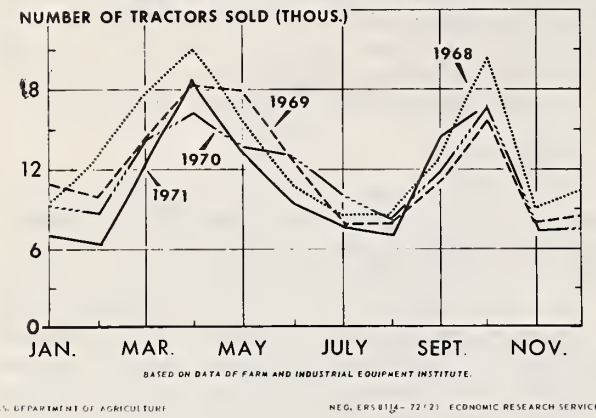
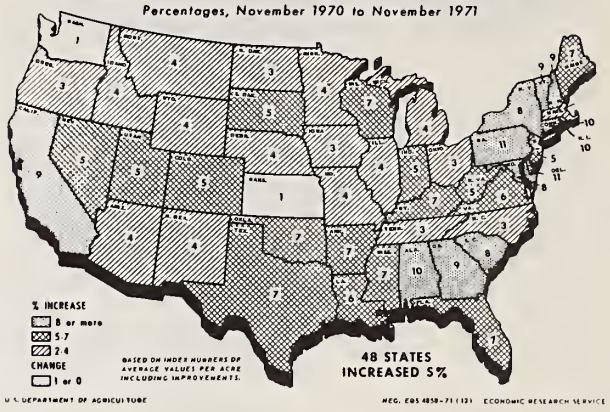
Phase II economic programs will influence farm costs. Although a good portion of farm expenditures represents items of farm origin, interest charges and taxes, which are exempt from pricing restraints, any slower advance in the general price level will help moderate the rise in farm production expenditures.

Farm wage rates (per hour without board or room) advanced 3% above the rate of a year ago to $1.82 on January 1, 1972. Wage increases were noted in most areas of the country except for a slight decline in the South Atlantic region. Largest increases were recorded in New England and the West South Central region where farm labor wage rates were 8% higher.

In the year ending June 30, 1971, fertilizer utilization climbed to a record 40.8 million tons, nearly 4% more than in the previous year. Consumption of the primary plant nutrients—nitrogen, phosphate, potash—rose to a record high 16.8 million tons, 5% above a year earlier. Increased marketing costs and a substantially higher potash price contributed to more than a 5% rise in average fertilizer prices in 1971. Indications for 1972 are that prices for nitrogen and potash will level off while phosphate could be bumping price ceilings established by the Price Commission of the Cost of Living Council.



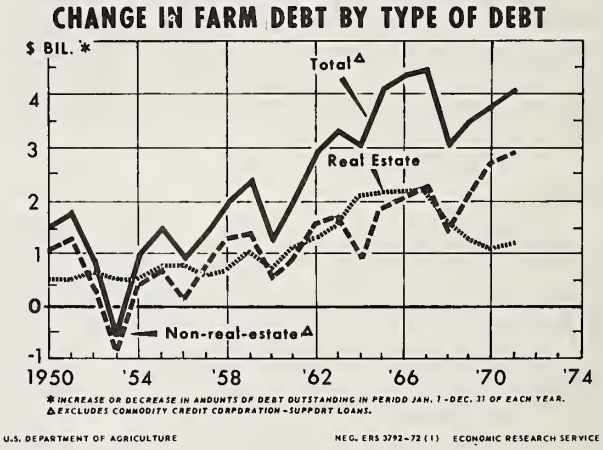

Retail sales of farm tractors through August, 1971, were lagging year ago levels by 12% according to the Farm and Industrial Equipment Insititue. During September sales jumped a substantial 24% above a year earlier before easing to only 2% above a year ago in October.Record grain and soybean crops probably contributed to the surge in tractor buying.

Retail sales of farm machinery through October, 1971, were down in most equipment categories with the largest decline noted for cornheads. However, on a monthly basis machinery buying showed a marked increase in October. Combine sales, the biggest ticket item in farm machinery, increased 8% compared to October of a year ago. Substantial increases were also noted for corn pickers and forage harvesters with only hay balers showing a slight decline.

Recent sales trends and the farm income outlook for 1972 suggest that the farm tractor and machinery markets could enjoy a slight increase in unit sales this year. The 7% investment tax credit coupled with an increased availability of loanable funds at lower interest rates should encourage farmers to increase their purchases of capital equipment. In addition, Phase II economic programs will likely slow the rise in machinery costs in 1972. On the negative side, a projected 20 million acre increase in feed grain set-aside acreage could have a dampening influence on farmers' equipment requirements.

The per acre value of farmland for the year ended November 1, 1971, rose to $205, slightly higher than the March level and 5% above the same period of a year ago. Increases in value were recorded in all regions with the largest advances noted in the Northeast. Demand for farm acreage remains firm due to the continuing expansion in farm size and the conversion of farmland to urban and recreational uses in some areas. A larger supply of loanable funds at lower interest rates is likely to further strengthen farmland demand in 1972. For the year, increases in farm real estate values may approximate the 1971 advance.

Farm debt, excluding CCC loans, advanced 7% in 1971 to $63.4 billion, $4.2 billion higher than the level of a year ago. Close to $3 billion of the 1971 gain was attributed to nonreal estate debt. Higher interest charges and the need for short-term credit to expand operations have prompted the shift to nonreal estate loans. Nevertheless, the total debt was about equally divided between real estate ($30.7 billion) and nonreal estate ($32.7 billion). In 1972, favorable conditions in the financial markets point to another more than $4 billion increase in the farm debt. Moreover, with lower interest rates expected throughout most of 1972, farmers are likely to convert to long-term some of their short-term obligations accrued during the period of higher rates.




### Timber Products

Lumber and plywood production in 1971 made a marked increase after declining slightly in 1970. Output of most timber products was generally higher with a substantial gain noted for softwood plywood. A record number of housing starts in 1971 contributed to the upsurge in timber demand. Stumpage prices, about level early in the year, showed an upward trend during the third quarter. Prices of softwood lumber and plywood, up sharply in the first half, eased somewhat in the fall. But prices were near ceiling levels established by the Price Commission as 1972 began.

Trends in the major timber product markets suggest that prices and production may rise again in 1972. With residential construction projected slightly above its high

Table 2.—Production and prices received by farmers for major livestock and livestock products, 1969, 1970, 1971, and fourth quarters of 1970 and 1971

| Item | Unit | Annual | | | Fourth quarter | |
|---|---|---|---|---|---|---|
| | | 1969 | 1970 | 1971[1] | 1970 | 1971[1] |
| Production[2] | | | | | | |
| Beef and veal | Mil. lb. | 21,831 | 22,272 | 22,457 | [3]5,596 | [3]5,500 |
| Pork | Mil. lb. | 12,953 | 13,434 | 14,772 | [3]3,905 | [3]3,817 |
| Lamb and mutton | Mil. lb. | 550 | 551 | 555 | [3]133 | [3]138 |
| Chickens | Mil. lb. | 8,054 | 8,663 | 8,750 | [3]1,843 | [3]1,929 |
| Turkeys | Mil. lb. | 1,614 | 1,738 | 1,830 | [3]671 | [3]645 |
| Eggs | Mil. lb. | 9,038 | 9,199 | 9,400 | 2,331 | 2,364 |
| Milk | Bil. lb. | 116.3 | 117.4 | 118.6 | [4]27.5 | [4]27.8 |
| Prices received by farmers | | | | | | |
| Cattle | Dol./cwt. | 26.20 | 27.10 | 28.80 | 25.30 | 29.50 |
| Hogs | Dol./cwt. | [5]22.20 | [5]22.70 | 18.00 | 16.10 | 19.40 |
| Lambs | Dol./cwt. | 27.20 | 26.40 | 25.70 | 24.90 | 25.00 |
| Broilers | Ct./lb. | 15.2 | 13.5 | 13.8 | 12.4 | 12.6 |
| Turkeys | Ct./lb. | 22.4 | 22.7 | 21.7 | 22.3 | 22.4 |
| Eggs | Ct./doz. | 40.0 | 37.6 | 31.0 | 35.2 | 30.7 |
| All milk (sold to plants) | Dol./cwt. | 5.49 | 5.71 | 5.86 | 6.06 | 6.15 |

[1] Preliminary. [2] Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. [3] Data for 48 States. Commercial slaughter only. [4] Based on monthly data. [5] Marketing year average December-November.

Stock of grains

| Grain and position | January 1, 1971 | January 1, 1972 | Percentage change 1972/71 |
|---|---|---|---|
| | *Million tons* | *Million tons* | *Percent* |
| TOTAL FEED GRAINS | | | |
| On farms[1] | 98 | 122 | 24 |
| Off farms[2] | 48 | 52 | 8 |
| Total | 146 | 174 | 19 |
| | *Million bushels* | *Million bushels* | *Percent* |
| WHEAT | | | |
| On farms[1] | 531 | 700 | 32 |
| Off farms[2] | 884 | 853 | -4 |
| Total | 1,415 | 1,553 | 10 |
| SOYBEANS | | | |
| On farms[1] | 392 | 395 | 1 |
| Off farms[2] | 553 | 491 | -11 |
| Total | 945 | 887 | -6 |

[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

Prices received by farmers, change from a year earlier[1]

| Month | All crops | Livestock and products |
|---|---|---|
| | *Percent* | *Percent* |
| January 1971 | 6.2 | -12.7 |
| February | 7.1 | -7.1 |
| March | 9.2 | -8.8 |
| April | 11.3 | -5.8 |
| May | 11.0 | -2.6 |
| June | 12.9 | -3.4 |
| July | 7.8 | -4.2 |
| August | 8.0 | 1.7 |
| September | 0 | .9 |
| October | 3.9 | 4.4 |
| November | 5.9 | 9.2 |
| December | 10.1 | 12.0 |
| January 1972 | 1.8 | 4.1 |

[1] Percent changes computed from indices on 1967 base.

1971 pace, demand for softwood construction lumber and plywood is likely to continue strengthening. In addition, increases in furniture manufacturing, which usually moves with residential construction activity, will put additional pressure on hardwood lumber and plywood supplies.

Table 3.—Supply-distribution and season average prices of selected major crops, 1968/69, 1969/70, 1970/71 and 1971/72

| Item | Beginning stocks | Imports | Production | Total supply | Domestic use | Exports | Total use | Ending stocks | Season average price |
|---|---|---|---|---|---|---|---|---|---|
| | *Million tons* | | | | | | | | *Dol. per bushel* |
| Feed grains | | | | | | | | | |
| 1968/69 | 48.3 | 0.3 | 168.9 | 217.5 | 149.1 | 18.4 | 167.5 | 50.0 | [1] 1.08 |
| 1969/70 | 50.0 | .4 | 174.6 | 225.0 | 155.4 | 21.2 | 176.6 | 48.4 | [1] 1.15 |
| 1970/71[2] | 48.4 | .4 | 158.6 | 207.4 | 153.8 | 20.6 | 174.4 | 33.0 | [1] 1.33 |
| 1971/72[3] | 33.0 | .3 | 205.3 | 238.6 | 162.7 | 20.9 | 183.6 | 55.0 | [1] 1.06 |
| | *Million bushels* | | | | | | | | *Dol. per bushel* |
| Wheat | | | | | | | | | |
| 1968/69 | 539.4 | 1.1 | 1,576.2 | 2,116.7 | 753.9 | 544.2 | 1,298.1 | 818.6 | 1.24 |
| 1969/70 | 818.6 | 3.2 | 1,460.2 | 2,282.0 | 791.2 | 606.1 | 1,397.3 | 884.7 | 1.24 |
| 1970/71[2] | 884.7 | 1.1 | 1,370.2 | 2,256.0 | 787.2 | 738.6 | 1,525.8 | 730.2 | 1.33 |
| 1971/72[3] | 730.2 | 1.1 | 1,639.5 | 2,370.8 | 825.0 | 575.0 | 1,400.0 | 970.8 | 1.32 |
| | *Million hundredweight* | | | | | | | | *Dol. per cwt.* |
| Rice | | | | | | | | | |
| 1968/69 | 6.8 | ([4]) | 104.1 | 110.9 | [5] 38.6 | 56.1 | 94.7 | 16.2 | 5.00 |
| 1969/70 | 16.2 | .2 | 90.9 | 107.3 | [5] 34.0 | 56.9 | 90.9 | 16.4 | 4.95 |
| 1970/71[2] | 16.4 | 1.4 | 83.8 | 101.6 | [5] 36.5 | 46.5 | 83.0 | 18.6 | 5.17 |
| 1971/72[3] | 18.6 | 1.5 | 84.3 | 104.4 | 35.2 | | | | 5.22 |
| | *Million bushels* | | | | | | | | *Dol. per bushel* |
| Soybeans | | | | | | | | | |
| 1968/69 | 166.3 | 0 | 1,103.1 | 1,269.4 | 658.2 | 286.8 | 945.0 | 324.4 | 2.43 |
| 1969/70 | 324.4 | 0 | 1,126.3 | 1,450.7 | 788.0 | 432.6 | 1,220.6 | 230.1 | 2.35 |
| 1970/71[2] | 230.1 | 0 | 1,123.7 | 1,353.8 | 821.7 | 433.2 | 1,254.9 | 98.9 | 2.85 |
| 1971/72[3] | 98.9 | 0 | 1,169.4 | 1,268.3 | | | | | 2.96 |
| | *Million bales* | | | | | | | | *Cents per pound* |
| Cotton[6] | | | | | | | | | |
| 1968/69 | 6.4 | [7] .1 | 11.0 | 17.5 | 8.2 | 2.7 | 11.0 | 6.5 | 22.15 |
| 1969/70 | 6.5 | [7] .1 | 9.9 | 16.5 | 8.0 | 2.8 | 10.8 | 5.8 | 21.09 |
| 1970/71[2] | 5.8 | [7] .1 | 10.2 | 16.1 | 8.1 | 3.7 | 11.8 | 4.3 | 21.98 |
| 1971/72[3] | 4.3 | [7] .1 | 10.4 | 14.7 | 8.1 | 3.0 | 11.1 | 3.6 | 28.2 |

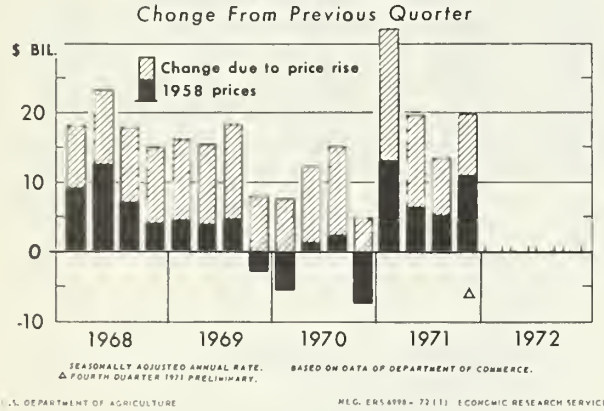
[1] Price for corn. [2] Preliminary. [3] Estimated. [4] Less than 50,000 cwt. [5] Includes the following statistical discrepancies: 1968/69, 2.9, 1969/70, 0.9, and 1970/71 2.2 mil. cwt. [6] Production based on ginnings between August 1 and July 31. [7] Includes city crop. 1971/72 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding.

The economy made a significant though incomplete recovery in 1971 from its 1969-70 mini-recession. Real output rose approximately 2½% while general price indices slowed their rapid advance. But inventories were only maintained or liquidated. Also, industrial production failed to rally until the fourth quarter, keeping unemployment around 6% of the labor force.

Consumers, aided by substantial gains in disposable personal incomes, pushed their expenditures for goods, services, and housing well above 1970's pace. And corporations, encouraged by growing profits and improving liquidity, began to raise their investment levels. Exports of goods, however, failed to offset rising imports as our merchandise trade balance became a deficit.

**GROSS NATIONAL PRODUCT**

*Change From Previous Quarter*




### 1972 Outlook Good

More private investment, an expansion in consumer spending, and larger government expenditures point to increased economic activity in 1972. Businessmen, encouraged by the growth of consumer expenditures, devaluation of the dollar, slowing rises in costs, and investment tax credit incentives will likely replenish stocks of finished goods and modernize their capital facilities in 1972.

According to recent surveys, investment in new plant and equipment may increase 9-12%. While steel, space, and aircraft industries have been forced to cutback their operations, housing, health, and energy markets have expanded. Most utilities indicate large investments in new plant and facilities will be undertaken this year and have begun financing on a large scale. And defense orders may increase, helping some presently depressed areas.

Consumer demand will likely strengthen although auto purchases will probably return to more normal patterns from the 1971 surge. Present consumer buying plans look good while consumer credit continues to expand. The buildup in personal savings over the past several years has swollen the consumers' buying potential. And slower price advances could help to induce increased consumer buying, particularly of large items. Sales of domestic goods will probably be helped by the recent devaluation of the dollar causing imported goods to be more expensive.

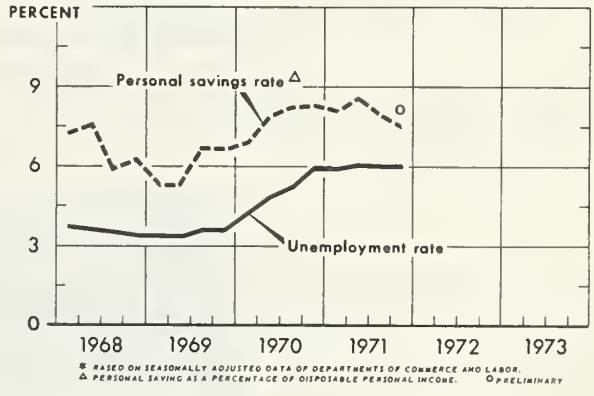
**Major GNP components, change from previous quarter**

| Item | 1971 | | |
|---|---|---|---|
| | II | III | IV[1] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Total change in GNP | 19.2 | 13.4 | 19.6 |
| Consumption | 12.5 | 11.4 | 8.9 |
| Private nonresidential fixed Investment | 3.6 | 1.0 | 1.1 |
| Housing | 4.6 | 2.7 | 1.5 |
| Inventory[2] | -1.5 | -5.8 | 3.1 |
| Net exports | -4.6 | -.1 | -2.0 |
| Government | 1.7 | 4.2 | 7.1 |

[1] Preliminary. [2] See footnote 1, text table, below.

An easing in the present high unemployment rate would reinforce this year's recovery. Increased employment coupled with rising wage rates, a longer working week in some industries, expanding social security and welfare payments, and a further rise in Federal tax exemptions will help boost consumers' after-tax incomes. An increase in disposable personal income of around 8% is a good possibility if present prospects for expanded economic activity are realized. These income gains will add to demand for food and other consumer goods.

**UNEMPLOYMENT AND SAVINGS RATES***




Although the Federal Government is curtailing many programs and reducing Federal employment, both Federal spending and outlays by State and local governments will more than likely outpace their 1971 increase. The Federal deficit, which has become quite large, will on balance be an expansionary factor in the economy this year.

Prospects for an acceleration in private sector spending and increase in government activity point to a

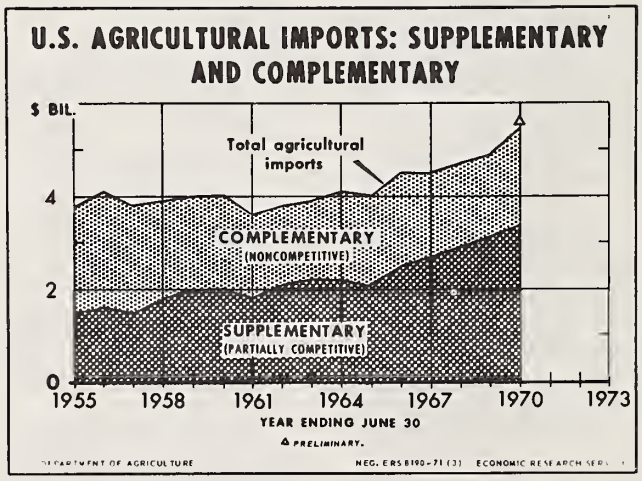
Table 4.—General economic activity

(Seasonally adjusted annual rates)

| Item | Year 1970 | Year 1971[1] | 1971 I | 1971 II | 1971 III | 1971 IV[1] |
|---|---|---|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Gross national product | 974.1 | 1,046.8 | 1,020.8 | 1,040.0 | 1,053.4 | 1,073.0 |
| Gross national product (1958 dollars) | 720.0 | 739.5 | 729.7 | 735.8 | 740.7 | 751.7 |
| Disposable personal income | 687.8 | 741.2 | 722.0 | 739.6 | 748.5 | 754.8 |
| Personal consumption expenditures | 615.8 | 662.2 | 644.9 | 657.4 | 668.8 | 677.7 |
| Durable | 88.6 | 100.4 | 96.6 | 99.1 | 102.8 | 103.2 |
| Nondurable | 264.7 | 278.8 | 273.2 | 277.8 | 280.2 | 283.9 |
| Services | 262.5 | 283.0 | 275.0 | 280.5 | 285.8 | 290.6 |
| Personal savings | 54.1 | 60.4 | 58.6 | 63.6 | 61.0 | 58.4 |
| Net government receipts | 206.3 | 212.8 | 210.9 | 208.7 | 211.7 | --- |
| Government purchases | 219.4 | 233.1 | 227.9 | 229.6 | 233.8 | 240.9 |
| Federal | 97.2 | 97.6 | 96.4 | 96.0 | 97.6 | 100.6 |
| State and local | 122.2 | 135.4 | 131.6 | 133.6 | 136.2 | 140.3 |
| Deficit or surplus (on income and product accounts) | -13.1 | -20.3 | -17.1 | -20.9 | -22.2 | --- |
| Gross private domestic investment | 135.3 | 150.8 | 143.3 | 152.9 | 150.8 | 156.5 |
| Fixed investment | 132.5 | 148.7 | 140.2 | 148.3 | 152.0 | 154.6 |
| Residential | 30.4 | 40.6 | 35.4 | 40.0 | 42.7 | 44.2 |
| Nonresidential | 102.1 | 108.2 | 104.7 | 108.3 | 109.3 | 110.4 |
| Change in business inventories | 2.8 | 2.1 | 3.1 | 4.6 | -1.2 | 1.9 |
| Gross retained earnings | 99.3 | 112.7 | 107.6 | 111.9 | 113.0 | --- |
| Excess of investment | -36.0 | -38.1 | -35.7 | -41.0 | -37.8 | --- |
| Net exports of goods and services | 3.6 | .7 | 4.7 | .1 | 0 | -2.0 |
| Per capita disposable personal income (1958 dollars) | 2,595 | 2,660 | 2,631 | 2,663 | 2,669 | 2,668 |
| Total civilian employment (millions)[2] | 78.6 | 79.1 | 78.6 | 78.7 | 79.2 | 80.0 |

[1] Preliminary. [2] U.S. Department of Labor.

U.S. Department of Commerce.



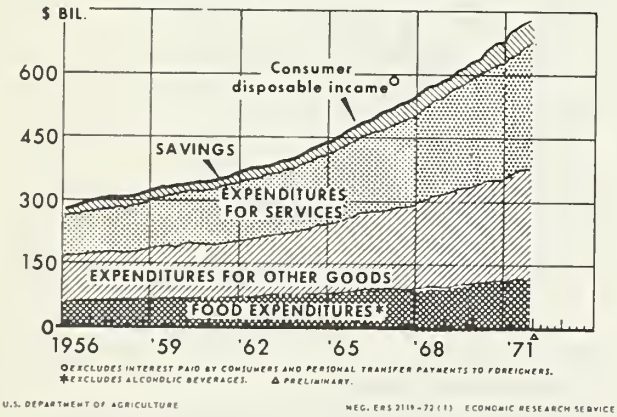
sizable gain in total economic activity in 1972. If the battle to curb inflation succeeds, real output could increase as much as 4-5% with a gain of perhaps around 8-9% in the current dollar gross national product.

### Phase II Proceeds

Phase II's Pay Board and Price Commission have set an economic goal limiting increases in the general price level to 2-3% this year. A 5.5% ceiling as a general guideline for future wage increases has also been announced. These guidelines and their implementation will, of course, be a major element in the 1972 outlook. Pressure upon the Pay Board and the Price Commission will be very great particularly if the increases in price indices do not slow significantly in coming months.

The degree to which the economic activity of an individual industry will be monitored by the Pay Board and the Price Commission depends upon the importance of the industry in our economy. The most critical firms or collective bargaining units are required to notify either the Price Commission or the Pay Board in advance of proposed price or wage increases. Small businesses must list base prices upon their premises. Allowances for specific processed food products are determined by the general price guidelines. Prices of raw agricultural products are not covered.

**INCOME AND EXPENDITURES**




○EXCLUDES INTEREST PAID BY CONSUMERS AND PERSONAL TRANSFER PAYMENTS TO FOREIGNERS.
*EXCLUDES ALCOHOLIC BEVERAGES. Δ PRELIMINARY.

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### Consumers Spending More

Consumers have been spending more despite their relatively high saving rate. Personal consumption expenditures increased $46 billion in 1971 to $662 billion annually compared with a $36 billion advance in 1970. The surge in auto sales provided the bulk of the gain. New car sales reached a record 10.3 million units as excise taxes were repealed, wage-price regulations restrained 1972 model prices, and there was catch-up buying from 1970 early in the year.

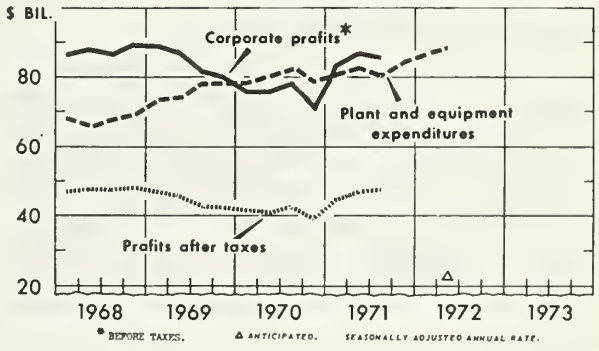
The pattern of increased consumer buying appeared more widespread as 1972 approached. Although 1971's acceleration in consumer spending slowed, fourth quarter preliminary data are encouraging. Purchases of nondurable goods increased $3-3/4 billion to around $284 billion on an annual basis, compared with a $2-1/2 billion advance in the previous quarter. Spending on services increased $4-3/4 billion, reaching the impressive rate of nearly $291 billion on an annual basis.

### Housing Booming

Pent-up demand, lower mortgage rates, and a larger money supply are combining to generate a housing boom despite increased costs. Consumers are investing even more in new homes this year after a rapid recovery in 1971. Housing starts were record breaking in December, rising to a seasonally adjusted annual rate of 2.5 million units. Total starts in 1971 were above the 2 million rate, 43% above 1970's level.

Expenditures for residential structures totaled $40.6 billion in 1971 reaching a level of $44.2 billion on an annual basis by the fourth quarter. But because housing has traditionally been countercyclical, the expected 1972 expansion in the total economy could temper the housing industry's rapid advance. As business fixed investment climbs, competition for materials, money, and men will increase. Nevertheless, government support, growing steadily in recent years both through direct subsidies and financial underwriting, should partially offset these cyclical factors in 1972. And growing incomes should make private demand even more effective.

**CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES**




* BEFORE TAXES. Δ ANTICIPATED. SEASONALLY ADJUSTED ANNUAL RATE.

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### Investment Turning Up

Investment in producers' durable equipment rose far more rapidly in 1971 than in 1970. The volume of this type of investment, after discounting for price increases, has now surpassed its 1969 level in real terms. This development, signaling the end of the 1969/70 downturn, has triggered increased production, employment, and inventory investment in the manufacturing sector.

Revised data now indicate that the depletion in inventories last year was greater than previously reported. Much of this development has been due to excessive steel stocks and the reaction of retail and wholesale businesses to the gradual rate of economic

GNP and final sales, change from previous quarter

| Year | | GNP | Final sales | Inventory change[1] |
|---|---|---|---|---|
| | | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| 1968: | I | 18.1 | 25.3 | -7.1 |
| | II | 23.4 | 16.6 | 6.7 |
| | III | 17.8 | 19.7 | -1.9 |
| | IV | 15.0 | 14.6 | .4 |
| 1969: | I | 16.2 | 17.7 | -1.5 |
| | II | 15.4 | 15.2 | .2 |
| | III | 18.4 | 14.8 | 3.6 |
| | IV | 7.8 | 12.5 | -4.7 |
| 1970: | I | 8.0 | 13.3 | -5.3 |
| | II | 12.5 | 10.9 | 1.7 |
| | III | 15.0 | 11.9 | 3.0 |
| | IV | 4.9 | 6.3 | -1.4 |
| 1971: | I | 32.4 | 33.0 | -.6 |
| | II | 19.2 | 17.7 | 1.5 |
| | III | 13.4 | 19.2 | -5.8 |
| | IV[2] | 19.6 | 16.6 | 3.1 |

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the fourth quarter of 1971 ($1.9 billion) less the change in the third quarter of 1971 ($-1.2 billion) equals plus $3.1 billion. [2] Preliminary.

Federal receipts and expenditures, national income basis[1]

| Item | 1970 | 1971 | |
|---|---|---|---|
| | Second half | First half | Second half[2] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Receipts | 190.3 | 197.1 | [3]202.7 |
| Personal tax | 90.4 | 87.1 | 90.9 |
| Corporate profits tax | 30.4 | 34.4 | [3]35.0 |
| Indirect business tax | 19.6 | 20.3 | 20.2 |
| Social insurance | 49.9 | 55.3 | 56.6 |
| Expenditures | 208.2 | 217.0 | 227.0 |
| Goods and services | 96.0 | 96.2 | 99.1 |
| Transfer payments | 66.0 | 73.7 | 78.1 |
| Grants to State and local governments | 25.4 | 28.2 | 31.1 |
| Net interest paid | 14.9 | 13.6 | 13.8 |
| Subsidies less surplus | 5.8 | 5.3 | 4.8 |
| Surplus or deficit | -18.0 | -20.0 | -24.3 |

[1] Calendar years, seasonally adjusted annual rates. [2] Preliminary. [3] Estimated.

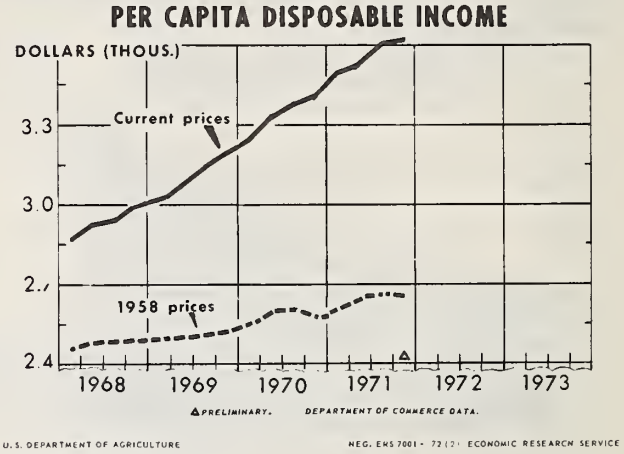
recovery. Preliminary data, however, report net investment in inventories increased $3 billion in the fourth quarter despite stock liquidation by automobile dealers. Inventory accumulation, which usually speeds up during a recovery period, remains a potential source of growth in 1972.

### Government Receipts and Expenditures

State and local governments provided almost all of the increase in government expenditures last year, rising 11%. This growth will likely continue throughout 1972 as social and physical standards of local jurisdictions are maintained or improved, particularly in the areas of ecology, education, penology, and urban development. Federal aid and grants to States are scheduled to increase but may be distributed differently as many Federal programs are revised for efficiency and local participation.

Federal purchases of goods and services averaged about the same in 1971 as in 1970. However, nondefense expenditures rose about 20% to a little over $26 billion as defense expenditures declined $4 billion to a $71 billion level. Total expenditures in the fourth quarter took a substantial jump, however, as both types of expenditures advanced together. Defense spending increased over $1 billion at annual rates because of a military pay raise. Agricultural outlays by the Commodity Credit Corporation also increased.

The proposed Budget presented in January by the President as well as the President's Economic Report indicate that Federal expenditures, dominant during the past several years, will rise moderately. However, the presently large Federal deficit may be narrowed a little by larger corporate and personal tax receipts coming from a rising economy. Proposed expenditures are based on a full-employment budget.




### Employment and Income

Despite improving economic trends, the unemployment rate has hovered around 6% on a seasonally adjusted basis for over a year. The 1971 annual rate, 5.9%, was up considerably from the 1970 average of 4.9%. Although employment has increased in most sectors since summer, it has not increased rapidly enough to absorb all the new entrants in the labor force, veterans returning from Vietnam, and many of those who lost jobs during the 1969-1970 mini-recession.

On the income front, the picture is much brighter. Average hourly earnings of production and nonsupervisory workers were $3.50 in December, up a little from November and 6.1% above a year earlier. Because of the increase in hours worked and the gain in hourly earnings, average weekly earnings for these workers rose in December to $130.55, about 6.6% over

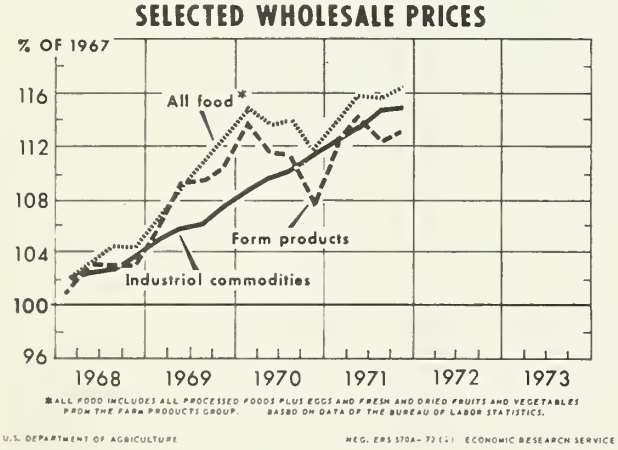
Major personal income components, change from previous quarter

| Item | 1971 | | |
|---|---|---|---|
| | II | III | IV[1] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Personal income | 19.9 | 11.2 | 12.0 |
| Wages and salaries | 9.6 | 6.3 | 9.6 |
| Manufacturing | 1.8 | -.2 | 2.6 |
| Nonmanufacturing | 6.3 | 4.0 | 5.3 |
| Government | 1.6 | 2.4 | 1.7 |
| Other Income | 1.9 | 4.7 | 2.0 |
| Transfer payments | 8.5 | .5 | .8 |
| Social Insurance payments (minus) | .3 | .3 | .4 |
| Personal tax payments | 2.2 | 2.2 | 5.8 |
| Disposable personal income | 17.6 | 8.9 | 6.3 |
| Personal outlays | 12.7 | 11.6 | 8.9 |
| Personal savings | 5.0 | -2.6 | -2.6 |

[1] Preliminary.

the previous year. Weekly earnings rose in all major industries except construction.

Workers' real income is being helped by the slower rise in consumer prices and by the $6 billion reduction in Federal individual income tax liabilities in 1972. However, these gains will be partially offset by the $3 billion hike in social security taxes that took effect on January 1. Also, larger amounts are being withheld from weekly pay checks to satisfy the annual income tax liability.




## Price Indices Mixed

The three major price indices had been behaving relatively well during 1971, at least since midsummer. But in December, the Wholesale Price Index advanced 0.9 points to 115.4 (1967=100) after declining sharply in September and October. December advances were recorded in the three major wholesale classifications, farm products, processed food and feeds, and all industrial commodities. December was the first full month following the end of Phase I.

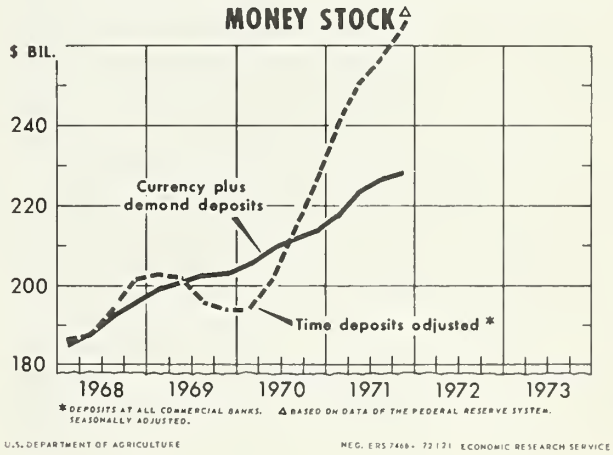
After advancing 0.2% or less per month for 5 months, the Consumer Price Index in December rose 0.4%. Almost two-thirds of the rise was due to higher prices for food, particularly fresh vegetables which are exempt from price controls. Still, the December index was 3.4% above a year earlier, the smallest December-to-December increase in 4 years. The 1971 rise was 4.3%, a slowdown from the 5.9% advance in 1970.

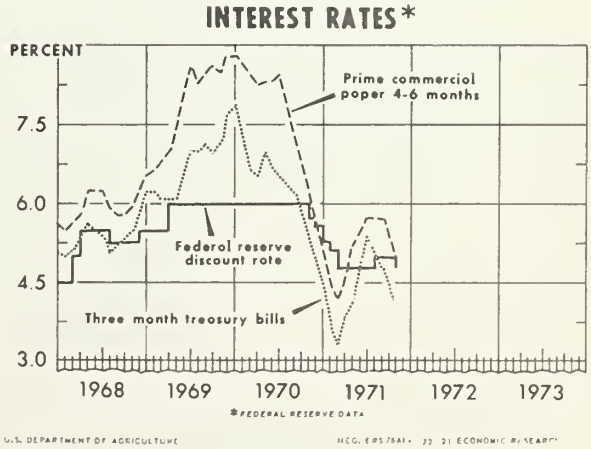
The implicit gross national product deflator, measured quarterly at a seasonally adjusted annual rate, slowed its advance in all 4 quarters of 1971. From 5.5% annual rate of increase in 1970, it decelerated to a 4.6% rate of increase in 1971.

## International Developments

Even though the United States moderated its trade deficit somewhat in the fourth quarter, the 1971 trade deficit still was substantial. Our trade balance in the past 20 years had always offset deficits in other accounts and has been our main hope in achieving a balance of payments with other nations. Despite the 10% surtax on imports after August 15 and the de facto devaluation, imports into the United States rose 17% in the first 9 months of 1971.

The leading monetary nations agreed in December to an adjustment in exchange rates designed to reflect more realistically the relation of the dollar to other currencies. The United States agreed to raise the dollar price of gold



by $3 an ounce. This action and action by other nations lowered the value of the dollar by about 12%. Other factors being equal, this makes U.S. goods cheaper in terms of foreign currencies, thereby helping our exports. In return, the United States in December lifted the 10% surtax it had imposed last August on imported goods.

### Money Markets

Interest rates were lower during the second half of 1971. The "floating" prime rate of major banks dropped from 5-3/4% in October to 4-3/4% in January of 1972. Short-term market yields (3-month government bills) dropped from 4.46% in October to 3.49% in the last week of January. Longer-term issues (3-5 years) declined from 5.68% in October to 5.47% during the last week in January.

The money stock expanded rapidly in the first half of 1971, but slowed to a near standstill during the last quarter of 1971. Money stock was $228.9 billion in January. The Federal Reserve lowered the discount rate to 4.75% in November and to 4.5% in December.

# THE FARMER AND THE BUDGET
## (The 1973 Agricultural Budget)

Following a year of gradual recovery but substantial unemployment in the economy, the Administration presented a relatively expansive Budget to Congress on January 24 for fiscal year 1973. The new Budget estimates a large increase in Federal expenditures in the current fiscal year and proposes a more moderate rise in fiscal 1973. These expenditures, $236 billion and $246 billion respectively, would far exceed estimated receipts, stimulating business activity through increased net government demand. Hopefully, expanded business activity would lower unemployment and increase spending by consumers for food and other products.

The composition of the new Budget for fiscal 1973 continues to increase the portion of total outlays devoted to education, health, and income security. Expenditures for national defense, although proportionally less of the total, will remain the largest single budget category. A $6.3 billion increase in new budget authority is being sought to strengthen our nuclear deterrent and modernize the general purpose defense forces. Previously, defense expenditures had been reduced by $2.5 billion from $80.3 billion spent in fiscal 1970.

Budget outlays by functions[1]

| Function | 1971 actual | 1972 est. | 1973 proposed |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| National defense | 77.7 | 78.0 | 78.3 |
| Income security | 55.7 | 65.2 | 69.7 |
| Interest | 19.6 | 20.1 | 21.2 |
| Health | 14.5 | 17.0 | 18.1 |
| Commerce | 11.3 | 11.9 | 11.6 |
| Veterans | 9.8 | 11.1 | 11.7 |
| Education | 8.7 | 10.1 | 11.3 |
| Agriculture | 5.1 | 7.3 | 6.9 |
| General government | 4.0 | 5.3 | 5.5 |
| Community and housing | 3.4 | 4.0 | 4.8 |
| International | 3.1 | 4.0 | 3.8 |
| Space | 3.4 | 3.2 | 3.2 |
| Natural resources | 2.7 | 4.4 | 2.5 |
| Other* | -7.6 | -5.0 | -2.3 |
| Total outlays[2] | 211.4 | 236.6 | 246.3 |
| Total revenues | 188.4 | 197.8 | 220.8 |
| Deficit | 23.0 | 38.8 | 25.5 |

[1] All years are on a fiscal basis. Outlays include expenditures and net lending and trust funds. [2] Totals may not add due to rounding.

*Net receipts.

If the proposed Budget is approved by Congress, income security programs will maintain their rapid expansion, jumping in outlays $10 billion in the current fiscal year and rising $4-1/2 billion in fiscal 1973 to a $70 billion level. Budget provisions in this functional category include, among others, welfare reform, increased social security benefits, extension of unemployment coverage, and a larger Food Stamp Program. The number of persons receiving benefits under the Food Stamp Program would exceed 13 million persons in 1973, four times the number in 1969. In addition, 8 million needy children would receive free or reduced price school lunches under other nutrition programs.

USDA Budget outlays[1]

| Function | 1971 actual | 1972 est. | Proposed 1973 |
|---|---|---|---|
| | *Billion dollars* | | |
| Agriculture and rural development | 5.1 | 7.3 | 6.9 |
| Income Security | 2.3 | 2.9 | 3.0 |
| Food for Peace | .9 | 1.1 | .8 |
| Natural resources | .8 | .9 | .8 |
| Other* | -.5 | -.6 | -.5 |
| Total | 8.6 | 11.6 | 11.0 |

[1] All years are on fiscal year basis. Outlays include expenditures and net lending.

*Net receipts.

Income security programs not only serve a humanitarian purpose but also provide the aged, the poor, and the unemployed with increased purchasing power. Generally, these are the groups that would have a high propensity to consume and to spend most of their increased income for food and other consumer goods. High and middle income groups in our economy presently are saving an unusually high portion of their incomes. And these groups are spending proportionally less and less of their total incomes for food each year.

Tables in this article show the amount of outlays scheduled for other functional categories of immediate interest to the farmer and the rest of the agricultural community. These functions include Agriculture and Rural Development, Natural Resources (includes Water Resources and Land Management), and International (includes Food for Peace) as well as Income Security discussed above. Categories that relate directly to Agriculture are largely administered by the U.S. Department of Agriculture. In a sense, these outlays

Budget Outlays for agriculture and rural development

| Subfunction | 1971 actual | 1972 est. | 1973 proposed |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Farm income stabilization | 3.7 | 5.5 | 5.0 |
| Agricultural land and water resources | .3 | .4 | .4 |
| Rural housing and public facility | .3 | .6 | .6 |
| Research and other agriculture services | .8 | .9 | .9 |
| Total* | 5.1 | 7.3 | 6.9 |

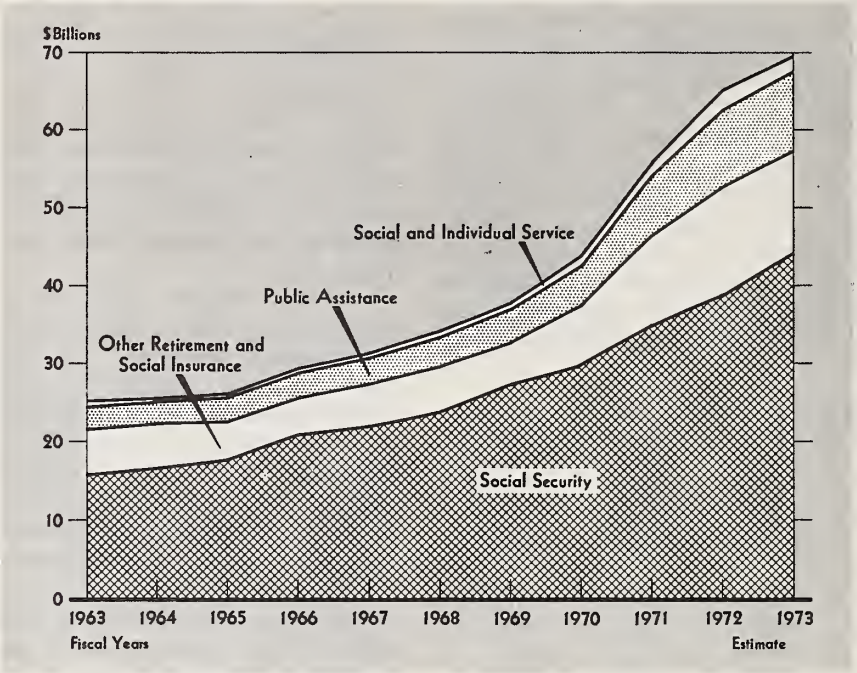
*Total includes offsetting receipts.

form the 1973 Agricultural Budget in the same way that the Budget of the U.S. Government is the budget for all sectors of the economy combined.

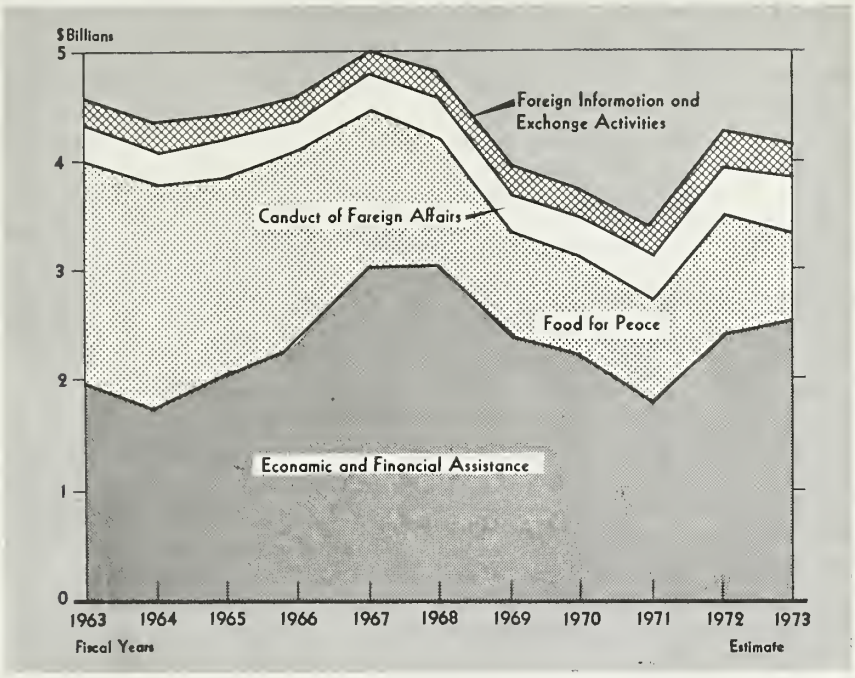
Expenditures for Agriculture and Rural Development are scheduled by the new Budget to rise by $2 billion in the current fiscal year and then decline slightly in fiscal year 1973. The large fluctuations in these expenditures are due primarily to the farm income stabilization program. In contrast to the 1970 season, the 1971 growing season was excellent, resulting in bumper grain crops. The Administration, accordingly, instituted a corn purchase program and announced additional voluntary set-asides for the 1972 feed grain and wheat programs.

The 1973 Agricultural Budget also includes increased funds for programs that provide credit and support for rural housing, education, environment, and research. The total Budget increases the funds going to every major category in fiscal years 1972 and 1973 above the 1971 level. The proposals for fiscal year 1973 will be debated in Congress.

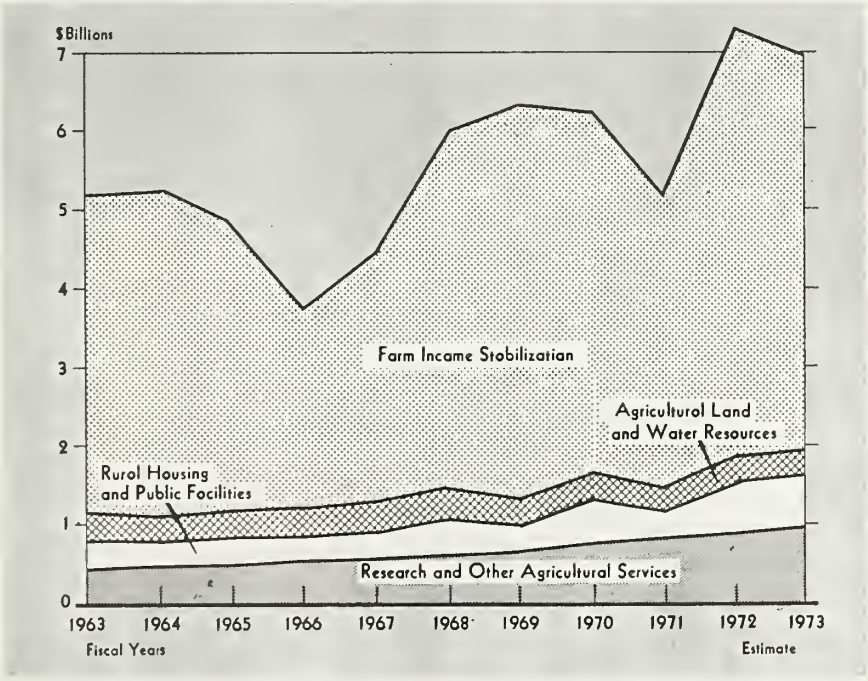
**Income Security Outlays**



## International Affairs and Finance Outlays




## Agriculture and Rural Development Outlays



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